

CITY OF MONTEZUMA, IOWA  
INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2007



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## CITY OF MONTEZUMA, IOWA

### CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James M. Hicks	Mayor	January, 2008
Frank R. Brownell, III	Mayor Pro Tem	January, 2008
Ronald Willrich	Council Member	January, 2008
Ronald Hedrick	Council Member	January, 2008
Mark Bolen	Council Member	January, 2010
Donald Vos	Council Member	January, 2010
Meryll Hicks	Clerk/Treasurer	Indefinite
William J. Sueppel	Attorney	Indefinite

**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
Pella, IA 50219  
641-628-3737

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:  
City of Montezuma  
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Montezuma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Governmental Auditing Standards, we have also issued our report dated September 25, 2007, on our consideration of the City of Montezuma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 9 and 28 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. Another CPA firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 and we audited the financial statements for the two years ended June 30, 2006 (none of which are presented herein) and all expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

September 25, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 9.1%, or approximately \$80,000, from fiscal 2006 to fiscal 2007. General receipts were up \$63,000.
- Disbursements decreased 7.6%, or approximately \$65,000 from fiscal 2006 to fiscal 2007. Public safety decreased approximately \$96,000 primarily due to the purchase of an ambulance in the prior year.
- The City's total cash basis net assets increased 13.4%, or approximately \$496,000 from June 30, 2006 to June 30, 2007. Of this amount, \$116,000 was due to a prior period adjustment which increased the general fund cash basis net assets. The current year governmental activities increased \$168,000 and the assets of the business type activities increased \$212,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about indebtedness and a comparative schedule of receipts and disbursements.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, general governmental and debt service. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water, sewer, recycling, and gas systems. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.



Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased. The analysis that follows focuses on the changes in cash balances for the governmental activities.

<b>Changes in Cash Basis Net Assets of Governmental Activities</b> <b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 90	94
Operating grants, contributions and restricted interest	137	140
Capital grants, contributions and restricted interest	54	30
General receipts:		
Property tax	481	476
Tax increment financing	45	44
Other city taxes		-
Grants and contributions not restricted to specific purposes		-
Payment in lieu of taxes	44	39
Unrestricted interest earnings	48	22
Contributions to permanent endowment	3	-
Miscellaneous	54	31
Total receipts and transfers	<u>956</u>	<u>876</u>
Disbursements:		
Public safety	165	261
Public works	242	193
Health and social services	3	-
Culture and recreation	108	126
General government	104	103
Debt service	166	170
Total disbursements	<u>788</u>	<u>853</u>
Increase in cash basis net assets	168	23
Cash basis net assets beginning of year, as restated (note 11)	<u>1,701</u>	<u>1,562</u>
Cash basis net assets end of year	<u>\$ 1,869</u>	<u>1,585</u>

The City's total receipts for governmental activities increased by 9.1%, or \$80,000. The total cost of all programs and services decreased by approximately \$65,000, or 7.6%.

The cost of all governmental activities this year was \$788,000 compared to \$853,000 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$506,000 because some of the cost was paid by those directly benefiting from the programs (\$90,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$191,000).

<b>Changes in Cash Basis Net Assets of Business Type Activities</b>		
<b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 474	405
Sewer	95	77
Recycling	57	57
Gas	1,607	1,517
General receipts:		
Unrestricted interest earnings	66	53
Other general receipts	99	15
Total receipts	<u>2,398</u>	<u>2,124</u>
Disbursements and transfers:		
Water	475	412
Sewer	69	95
Recycling	54	54
Gas	1,588	1,558
Total disbursements and transfers	<u>2,186</u>	<u>2,119</u>
Increase in cash balance	212	5
Cash basis net assets beginning of year	<u>1,626</u>	<u>1,621</u>
Cash basis net assets end of year	<u>\$ 1,838</u>	<u>1,626</u>

Total business type activities receipts for the fiscal year were \$2.398 million compared to \$2.124 million last year. Total disbursements and transfers for the fiscal year increased by 3.2% to a total of \$2.186 million.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$1,869,170, an increase of more than \$284,095 from last year's total of \$1,585,075. The following are the major reasons for the change in fund balance from the prior year:

- The General Fund increased by \$116,124 due to a prior period adjustment.
- The General Fund revenues in every area increased for a total increase of \$71,675.
- Public Safety disbursements decreased by \$95,528 due to the purchase of an ambulance in the prior year.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$20,371 to \$462,795, due primarily to a larger increase in revenues than expenditures.
- The Sewer Fund cash balance increased by \$39,137 to \$341,494, due to an increase in revenues and decrease in expenditures.
- The Gas Fund cash balance increased by \$147,939 to \$985,597 due to an increase in revenues while expenditures remained nearly unchanged.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget.

## DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$406,000 in bonds and other long-term debt, compared to approximately \$621,000 last year, as shown below.

<b>Outstanding Debt at Year-End (Expressed in Thousands)</b>		
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
General obligation bonds	\$ 205	340
Urban renewal tax increment financing revenue bonds	146	176
Revenue notes, water	55	105
Total	<u>\$ 406</u>	<u>621</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's debt subject to the City's constitution debt limit is \$351,000, which is significantly below its total calculated constitutional debt limit of \$3 million.

Debt decreased due to regularly scheduled payments of the obligations.

## COMPONENT UNIT

The separately issued financial statements for the Montezuma Light and Power Plant, listed as a component unit on these financial statements, is also available by contacting Meryll Hicks, City Clerk, at the address listed below.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Meryll Hicks, City Clerk, 501 East Main St., Box 314, Montezuma, Iowa.

**City of Montezuma, Iowa**

## **Basic Financial Statements**

CITY OF MONTEZUMA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the year ended June 30, 2007

		Program Receipts		
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	Disbursements	Service		
<b>Functions/Programs:</b>				
Primary government:				
Governmental activities:				
Public safety	\$ 164,929	81,275	10,655	31,834
Public works	241,579	-	121,433	-
Health and social services	2,750	-	-	-
Culture and recreation	108,146	477	4,820	-
General government	104,242	8,003	-	22,711
Debt service	165,895	-	-	-
Total governmental activities	787,541	89,755	136,908	54,545
Business type activities:				
Water	475,010	474,447	-	-
Sewer	68,894	95,203	-	-
Recycling	54,321	56,835	-	-
Gas	1,588,206	1,606,835	-	-
Total business type activities	2,186,431	2,233,320	-	-
Total primary government	\$ 2,973,972	2,323,075	136,908	54,545
Component Unit:				
Municipal Light and Power Plant	\$ 4,663,681	2,946,252	-	-
Total component unit	\$ 4,663,681	2,946,252	-	-

**General Receipts:**

Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Payment in lieu of taxes	
Unrestricted interest on investments	
Contributions to permanent endowment	
Miscellaneous	
Total general receipts	

Change in cash basis net assets

Cash basis net assets beginning of year, as restated (note 11)

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:	
Debt service/improvements	
Permanent endowment fund:	
Nonexpendable	
Unrestricted	
<b>Total cash basis net assets</b>	

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(41,165)	-	(41,165)	-
(120,146)	-	(120,146)	-
(2,750)	-	(2,750)	-
(102,849)	-	(102,849)	-
(73,528)	-	(73,528)	-
(165,895)	-	(165,895)	-
(506,333)	-	(506,333)	-
-	(563)	(563)	-
-	26,309	26,309	-
-	2,514	2,514	-
-	18,629	18,629	-
-	46,889	46,889	-
(506,333)	46,889	(459,444)	-
-	-	-	(1,717,429)
-	-	-	(1,717,429)
\$ 353,366	-	353,366	-
45,124	-	45,124	-
127,376	-	127,376	-
43,959	-	43,959	-
47,608	66,480	114,088	98,522
2,500	-	2,500	-
54,371	98,532	152,903	-
674,304	165,012	839,316	98,522
167,971	211,901	379,872	(1,618,907)
1,701,199	1,625,945	3,327,144	2,764,513
1,869,170	1,837,846	3,707,016	1,145,606
74,840	76,540	151,380	682,587
3,500	-	3,500	-
1,790,830	1,761,306	3,552,136	463,019
\$ 1,869,170	1,837,846	3,707,016	1,145,606

## Exhibit B

CITY OF MONTEZUMA, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 GOVERNMENTAL FUNDS  
 As of and for the year ended June 30, 2007

	Special Revenue		
	General	Road Use Tax	Urban
			Renewal Tax Increment
Receipts:			
Property tax	\$ 353,366	-	-
Tax increment financing collections	-	-	45,124
Licenses and permits	2,905	-	-
Use of money and property	52,201	-	-
Intergovernmental	-	121,433	-
Charges for service	82,222	-	-
Private contributions	47,309	-	-
Miscellaneous	97,860	-	-
Total receipts	635,863	121,433	45,124
Disbursements:			
Operating:			
Public safety	164,930	-	-
Public works	130,788	110,790	-
Health and social services	2,750	-	-
Culture and recreation	108,146	-	-
General government	104,242	-	-
Debt service	-	-	44,740
Total disbursements	510,856	110,790	44,740
Excess of receipts over disbursements	125,007	10,643	384
Net change in cash balances	125,007	10,643	384
Cash balances beginning of year, as restated (note 11)	996,767	107,212	64,539
Cash balances end of year	\$ 1,121,774	117,855	64,923
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service/improvement	\$ -	-	-
Klindt memorial	1,761	-	-
Unreserved:			
General Fund	1,120,013	-	-
Special revenue funds	-	117,855	64,923
Capital projects fund	-	-	-
Permanent endowment, library	-	-	-
Total cash basis fund balances	\$ 1,121,774	117,855	64,923

See notes to financial statements.



Exhibit B

Capital Projects	Debt Service	Permanent Fund	Total
-	127,376	-	480,742
-	-	-	45,124
-	-	-	2,905
22,711	505	-	75,417
-	-	-	121,433
-	-	-	82,222
-	-	2,500	49,809
-	-	-	97,860
22,711	127,881	2,500	955,512
-	-	-	164,930
-	-	-	241,578
-	-	-	2,750
-	-	-	108,146
-	-	-	104,242
-	121,155	-	165,895
-	121,155	-	787,541
22,711	6,726	2,500	167,971
22,711	6,726	2,500	167,971
463,567	68,114	1,000	1,701,199
486,278	74,840	3,500	1,869,170
-	74,840	-	74,840
-	-	-	1,761
-	-	-	1,120,013
-	-	-	182,778
486,278	-	-	486,278
-	-	3,500	3,500
486,278	74,840	3,500	1,869,170

Exhibit C

CITY OF MONTEZUMA, IOWA  
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
GOVERNMENTAL FUNDS  
As of and for the year ended June 30, 2007

<b>Total governmental funds cash balances (Exhibit A)</b>	<u>\$ 1,869,170</u>
<b>Cash basis net assets of governmental activities (Exhibit B)</b>	<u><u>\$ 1,869,170</u></u>
<b>Net change in cash balances (Exhibit B)</b>	<u>\$ 167,971</u>
<b>Change in cash balance of governmental activities (Exhibit A)</b>	<u><u>\$ 167,971</u></u>

See notes to financial statements.

## Exhibit D

CITY OF MONTEZUMA, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 PROPRIETARY FUNDS  
 As of and for the year ended June 30, 2007

	Enterprise Funds				Total
	Water	Sewer	Recycling	Gas	
Operating receipts:					
Charges for service	\$ 474,447	95,203	56,835	1,606,835	2,233,320
Miscellaneous	4,565	-	-	93,967	98,532
Total operating receipts	479,012	95,203	56,835	1,700,802	2,331,852
Operating disbursements:					
Business type activities	420,142	37,412	54,321	1,588,206	2,100,081
Total operating disbursements	420,142	37,412	54,321	1,588,206	2,100,081
Excess of operating receipts over operating disbursements	58,870	57,791	2,514	112,596	231,771
Non-operating receipts (disbursements):					
Interest on investments	16,369	12,828	1,940	35,343	66,480
Debt service	(54,868)	(31,482)	-	-	(86,350)
Total non-operating receipts (disbursements)	(38,499)	(18,654)	1,940	35,343	(19,870)
Excess of receipts over disbursements	20,371	39,137	4,454	147,939	211,901
Net change in cash balances	20,371	39,137	4,454	147,939	211,901
Cash balances beginning of year	442,424	302,357	43,506	837,658	1,625,945
Cash balances end of year	\$ 462,795	341,494	47,960	985,597	1,837,846
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ 76,540	-	-	-	76,540
Unreserved	386,255	341,494	47,960	985,597	1,761,306
Total cash basis fund balances	\$ 462,795	341,494	47,960	985,597	1,837,846

See notes to financial statements.

Exhibit E

CITY OF MONTEZUMA, IOWA  
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
PROPRIETARY FUNDS  
As of and for the year ended June 30, 2007

<b>Total enterprise funds cash balances (Exhibit D)</b>	<u>\$ 1,837,846</u>
<b>Cash basis net assets of business type activities (Exhibit A)</b>	<u><u>\$ 1,837,846</u></u>
<b>Net change in cash balances (Exhibit D)</b>	<u>\$ 211,901</u>
<b>Change in cash balance of business type activities (Exhibit A)</b>	<u><u>\$ 211,901</u></u>

See notes to financial statements.

## Exhibit F

CITY OF MONTEZUMA, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 COMPONENT UNIT  
 As of and for the year ended June 30, 2007

	<u>Municipal Light and Power Plant</u>
Operating receipts:	
Charges for service	\$ 2,941,052
Total operating receipts	<u>2,941,052</u>
Operating disbursements:	
Business type activities	4,217,730
Total operating disbursements	<u>4,217,730</u>
Deficiency of operating receipts under operating disbursements	(1,276,678)
Non-operating receipts (disbursements):	
Rental income	5,200
Interest on investments	98,522
Debt service	(439,275)
Rental expenses	(6,676)
Total non-operating disbursements	<u>(342,229)</u>
Deficiency of receipts under disbursements	<u>(1,618,907)</u>
Net change in cash balances	(1,618,907)
Cash balances beginning of year	<u>2,764,513</u>
Cash balances end of year	<u>\$ 1,145,606</u>
<b>Cash Basis Fund Balances</b>	
Reserved for debt service/improvements	\$ 682,587
Unreserved	<u>463,019</u>
Total cash basis fund balances	<u>\$ 1,145,606</u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
June 30, 2007

	<u>Agency</u>
<b>Assets</b>	
Cash and investments	\$ 4,588
<b>Total assets</b>	<u>4,588</u>
<b>Liabilities</b>	
Accounts payable	<u>4,588</u>
<b>Total liabilities</b>	<u>4,588</u>
<b>Net assets</b>	<u><u>\$ -</u></u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(1) Summary of Significant Accounting Policies**

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and gas utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

**Discretely Presented Component Unit**

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

**B. Basis of Presentation**

**Government-wide Financial Statements** - The Statement of Activities and Net Assets report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets does not include fiduciary funds or component units that are fiduciary in nature. Net assets are reported in two categories:

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, but can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The Permanent Fund is used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Recycling Fund accounts for the operation and maintenance of the City's recycling program.



CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

C. Measurement Focus and Basis of Accounting

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The only restricted net assets available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. Those are described in note 3(b). None of the other restricted net assets are available for current expenses.

Reserved cash basis fund balances include two items. All cash in the Debt Service fund is reserved for Debt Service and improvement. The Klindt Memorial is cash reserved by the Council to be spent as expressed by the Klindt family. There is no legal trust in place.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Included in the June 30, 2007 general fund cash is \$28,901 in library donations and earnings and \$3,500 in library endowment donations, both held in trust by the Montezuma Community Foundation. The \$28,901 is available for use by the library whenever requested by the library board. The \$3,500 may not be spent; only earnings from those contributions will be available.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

At June 30, 2007 the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Certificate of deposit	\$ 27,939	27,939	October-08
Certificate of deposit	21,221	21,221	September-08
Certificate of deposit	32,041	32,041	September-08
Certificate of deposit	45,000	45,000	December-07
Certificate of deposit	20,000	20,000	January-08
Total	<u>\$ 146,201</u>	<u>146,201</u>	

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,800,978 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, tax increment financing revenue bonds and revenue notes are as follows:

Year ending June 30,	General Obligation Notes		Tax Increment Financing (TIF) Bonds		Water Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 145,000	10,360	32,000	12,410	55,000	1,540	232,000	24,310
2009	30,000	3,345	35,000	9,690	-	-	65,000	13,035
2010	30,000	1,680	38,000	6,715	-	-	68,000	8,395
2011	-	-	41,000	3,485	-	-	41,000	3,485
Total	<u>\$ 205,000</u>	<u>15,385</u>	<u>146,000</u>	<u>32,300</u>	<u>55,000</u>	<u>1,540</u>	<u>406,000</u>	<u>49,225</u>

The Urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate electric and water revenue note sinking accounts within the City's Enterprise Funds and component unit for the purpose of making the note principal and interest payments when due. At June 30, 2007, the sinking fund requirement for the electric fund was \$145,812, and the water fund \$56,540.
- c) An electric reserve account of \$439,275 shall be maintained within the Enterprise Funds until all 1999 notes have been paid in full. The required water reserve account as of June 30, 2007 was \$20,000.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

- d) A requirement of the March, 2004 electric revenue note is for the deposit of \$2,500 on the first day of each month to an electric improvement account. As of June 30, 2007, 39 payments were required for a total of \$97,500.

**(4) Pension and Retirement Benefits**

The City of Montezuma contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005, were \$19,006, \$17,627, and \$16,382, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2007 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$10,268

This liability has been computed based on current rates of pay.

**(6) Transactions Between the City and the Component Unit**

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

<u>Transaction Description</u>	<u>From City to Municipal Utility</u>	<u>From Municipal Utility to City</u>
Water Dept. Electric Use	\$ (28,942)	-
Water Dept. Billing/Meter Reading	(27,352)	-
Water Dept./Roof reimbursement	(3,010)	-
Water Department/Trencher reimb.	(8,127)	-
Gas Dept. Electric Use	(4,133)	-
Gas Dept. Billing/Meter Reading	(24,252)	-
Gas Dept./Roof reimbursement	(3,010)	-
Gas Dept./Trencher reimb.	(8,127)	-
Gas Dept./Salary reimb.-Outage	(3,507)	-
General City Electric Use	(52,313)	-
General City Roof reimbursment	(3,010)	-
Power Plants - Taxes in lieu	-	43,554
Totals	<u>\$ (165,783)</u>	<u>43,554</u>

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$7,711 during the year ended June 30, 2007.

**(8) Risk Management**

The City of Montezuma is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Commitments and Contingencies**

On September 4, 2002, the City of Montezuma Light and Power Plant entered into a joint ownership agreement with Mid-American Energy and thirteen other municipalities to construct and operate a coal-fired steam electric generating unit in Pottawattamie County, Iowa. The total project cost is approximately \$1,265,000,000 and the City has committed to an investment of approximately \$5,000,000. This commitment will be funded from October, 2002 through December, 2007, as construction progresses. During the fiscal year ending June 30, 2007, \$1,910,000 was advanced; the total that has been paid through June 30, 2007 to fund the project is \$5,008,495. The City of Montezuma Light and Power Plant issued \$5,150,000 of long-term bonds to finance this project. As of June 30, 2007, the project is paid in full.

On December 6, 2006, the City of Montezuma Light and Power Plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. The total commitment is for \$100,000. As of June 30, 2007, \$5,000 had been invested.

On June 15, 2007, the Montezuma Light and Power Plant purchased a piece of land for \$300,500. As of June 30, 2007, \$188,000 had been paid and the promise had been made for a lifetime rental right for the Seller. These rights carried a value of \$75,500 which contributed towards the purchased price of the land. The remaining balance of \$37,000 was unpaid at the fiscal year ending June 30, 2007.

**(10) Prior Period Adjustment**

We became aware of additional funds held by the Fire Department which were not previously disclosed. The funds required a \$116,124 adjustment to the beginning general fund assets. The beginning general fund cash basis net assets increased from \$880,643 to \$996,767.

### **Required Supplementary Information**

CITY OF MONTEZUMA, IOWA  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS - REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts Original and Final	Final to Net Variance
Receipts:					
Property tax	\$ 480,742	-	480,742	460,587	20,155
Tax increment financing collections	45,124	-	45,124	44,740	384
Other city tax	-	-	-	9,748	(9,748)
Licenses and permits	2,905	-	2,905	1,850	1,055
Use of money and property	75,417	66,480	141,897	60,000	81,897
Intergovernmental	121,433	-	121,433	131,190	(9,757)
Charges for services	82,222	2,233,320	2,315,542	1,863,800	451,742
Private contributions	49,809	-	49,809	-	49,809
Miscellaneous	97,860	98,532	196,392	70,000	126,392
Total receipts	955,512	2,398,332	3,353,844	2,641,915	711,929
Disbursements:					
Public safety	164,930	-	164,930	329,950	165,020
Public works	241,578	-	241,578	261,346	19,768
Health and social services	2,750	-	2,750	-	(2,750)
Culture and recreation	108,146	-	108,146	112,610	4,464
General government	104,242	-	104,242	121,535	17,293
Debt service	165,895	86,350	252,245	165,895	(86,350)
Business type activities	-	2,100,081	2,100,081	2,250,550	150,469
Total disbursements	787,541	2,186,431	2,973,972	3,241,886	267,914
Excess (deficiency) of receipts over (under) disbursements	167,971	211,901	379,872	(599,971)	979,843
Balances beginning of year, as restated (note 11)	1,701,199	1,625,945	3,327,144	8,682,666	(5,355,522)
Balances end of year	\$ 1,869,170	1,837,846	3,707,016	8,082,695	(4,375,679)

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
June 30, 2007

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

### **Other Supplementary Information**



CITY OF MONTEZUMA, IOWA  
SCHEDULE OF INDEBTEDNESS  
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest & Fees Paid	Interest Due and Unpaid
General obligation bonds:									
Sewer	5/1/2000	5.0-5.6%	\$240,000	\$ 110,000	-	25,000	85,000	6,483	393
Street	7/1/1998	4.25-4.7%	980,000	230,000	-	110,000	120,000	11,155	470
				<u>\$ 340,000</u>	<u>-</u>	<u>135,000</u>	<u>205,000</u>	<u>17,638</u>	<u>863</u>
Urban renewal tax increment financing:									
(TIF) Revenue bonds	2/22/1995	8.00-8.50%	\$370,000	\$ 176,000	-	30,000	146,000	14,740	1,034
Revenue bonds:									
Water	7/1/1997	5.25-5.6%	\$ 430,000	\$ 105,000	-	50,000	55,000	4,667	1,540

## Schedule 2

CITY OF MONTEZUMA, IOWA  
BOND AND NOTE MATURITIES  
Year ended June 30, 2007

Year Ending June 30,	General Obligation Bond/Notes				Revenue Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Sewer		Street		Water		Issued 2-22-1995	
	Issued 5-1-2000		Issued 7-1998		Issued 7-1-1997			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	5.50%	\$ 25,000	4.70%	\$ 120,000	5.60%	\$ 55,000	8.50%	\$ 32,000
2009	5.55%	30,000					8.50%	35,000
2010	5.60%	30,000					8.50%	38,000
2011							8.50%	41,000
		<u>\$ 85,000</u>		<u>\$ 120,000</u>		<u>\$ 55,000</u>		<u>\$ 146,000</u>

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash	\$ 2,809	8,000	6,221	4,588
<b>Liabilities</b>				
Accounts payable	\$ 2,809	8,000	6,221	4,588

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA  
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST SIX YEARS

	2007	2006	2005	2004	2003	2002
Receipts:						
Property tax	\$ 480,742	476,022	459,199	431,436	414,419	421,509
Tax increment financing collections	45,124	43,733	46,885	49,794	47,658	50,196
Other taxes		-	986	-	-	-
Use of money and property	75,417	41,662	29,397	19,891	17,747	11,849
Intergovernmental	121,433	122,541	122,047	136,597	159,142	161,796
Charges for service	82,222	89,033	74,911	88,461	83,344	44,109
Miscellaneous	97,860	103,531	481,620	77,702	55,858	39,129
Total	<u>\$ 902,798</u>	<u>876,522</u>	<u>1,215,045</u>	<u>803,881</u>	<u>778,168</u>	<u>728,588</u>
Disbursements:						
Operating:						
Public safety	\$ 164,930	260,458	159,325	178,665	150,188	138,109
Public works	241,578	193,131	201,900	262,332	225,916	209,845
Health and social services	2,750	-	2,500	6,730	-	-
Culture and recreation	108,146	126,386	399,413	121,897	80,391	95,573
General government	104,242	103,364	100,203	102,222	95,043	94,958
Debt service	165,895	169,962	169,803	169,098	124,620	123,580
Total	<u>\$ 787,541</u>	<u>853,301</u>	<u>1,033,144</u>	<u>840,944</u>	<u>676,158</u>	<u>662,065</u>

See accompanying independent auditor's report.



Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council  
City of Montezuma  
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 25, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montezuma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Montezuma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Montezuma's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Montezuma's financial statements that is more than inconsequential will not be prevented or detected by the City of Montezuma's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Montezuma's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07 is a material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

September 25, 2007

CITY OF MONTEZUMA, IOWA

SCHEDULING OF FINDINGS

Year Ended June 30, 2007

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

II-A-07      Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

CITY OF MONTEZUMA, IOWA

SCHEDULING OF FINDINGS

Year Ended June 30, 2007

**Part III: Other Findings Related to Statutory Reporting:**

III-A-07      Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the budget in the culture and recreation, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

III-B-07      Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-07      Travel Expense - No disbursements of City of Montezuma money for travel expenses of spouses of City officials or employees were noted.

III-D-07      Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2007 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Jim's Heating and Air Conditioning	Gas Outage Labor Heating Unit/Repairs	\$3,397 \$2,640
Doug Ver Meer, Light Plant Board Member, Owner, Vannoy Chevrolet	Truck	\$1,674

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions appear to represent conflicts of interest since total transactions with the individuals were more than \$1,500 during the fiscal year.

Recommendation – Legal council should be consulted.

Response – We will consult legal council to resolve.

Conclusion – Response accepted.



CITY OF MONTEZUMA, IOWA

SCHEDULING OF FINDINGS

Year Ended June 30, 2007

- III-E-07     Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- III-F-07     Council Minutes and Published Salaries - The published minutes and salaries are in accordance with statutory provisions.
- III-G-07     Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- III-H-07     Revenue Bonds and Notes - The City of Montezuma has established proper accounts as required by the City revenue note resolution.
- III-I-07     1099 Tax Filing Requirements – Payments which should normally be reported on IRS Form 1099 do not appear to have been filed.

Recommendation – IRS Form 1099s should be filed as required by law.

Response – We will consult our attorney regarding prior years and comply with the filing requirements in the future.

Conclusion – Response accepted.